

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 3261-02  
Bill No.: SB 933  
Subject: Taxation and Revenue - Income; Education, Higher; Auditor, State; Banks and Financial Institutions; Credit Unions; Boards, Commissions, Committees, Councils; Administration, Office Of; Securities  
Type: Original  
Date: January 23, 2004

**FISCAL SUMMARY**

| <b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUNDS</b>        |                              |                              |                              |
|---|------------------------------|------------------------------|------------------------------|
| FUND AFFECTED   | FY 2005                      | FY 2006                      | FY 2007                      |
| General Revenue *   | (\$57,625 to Unknown)        | (\$57,171 to Unknown)        | (\$58,605 to Unknown)        |
|   |                              |                              |                              |
| <b>Total Estimated Net Effect on General Revenue Fund *</b> | <b>(\$57,625 to Unknown)</b> | <b>(\$57,171 to Unknown)</b> | <b>(\$58,605 to Unknown)</b> |

\* expected to exceed \$100,000.

| <b>ESTIMATED NET EFFECT ON STATE FUNDS</b>                  |            |            |            |
|---|------------|------------|------------|
| FUND AFFECTED   | FY 2005    | FY 2006    | FY 2007    |
|   |            |            |            |
|   |            |            |            |
| <b>Total Estimated Net Effect on <u>All</u> State Funds</b> | <b>\$0</b> | <b>\$0</b> | <b>\$0</b> |

Numbers within parentheses: ( ) indicate costs or losses.  
This fiscal note contains 8 pages.

| <b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>                  |                |                |                |
|---|----------------|----------------|----------------|
| <b>FUND AFFECTED</b>  | <b>FY 2005</b> | <b>FY 2006</b> | <b>FY 2007</b> |
|   |                |                |                |
|   |                |                |                |
| <b>Total Estimated Net Effect on <u>All</u> Federal Funds</b> | <b>\$0</b>     | <b>\$0</b>     | <b>\$0</b>     |

| <b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b> |                |                |                |
|--|----------------|----------------|----------------|
| <b>FUND AFFECTED</b>                       | <b>FY 2005</b> | <b>FY 2006</b> | <b>FY 2007</b> |
| <b>Local Government</b>                    | <b>\$0</b>     | <b>\$0</b>     | <b>\$0</b>     |

**FISCAL ANALYSIS**

**ASSUMPTION**

Officials of the **Office of the State Auditor** (SAO) assume an audit of this program would require additional audit hours every other year. SAO estimates an additional one-half FTE would be needed for this program.

**Oversight** assumes SAO can complete the required program audit with existing resources.

Officials from the **Office of the State Treasurer** (STO) note that the first objective of this proposal would extend the Missouri income tax deduction to all states' Internal Revenue Code (IRC) 529 programs. STO assumes it would be more cost effective for financial managers to market other states' existing IRC 529 programs rather than create a new program with different parameters and rules and Missouri state oversight. As a result, the STO assumes that the MOST program will likely no longer be in existence after 2005 should this bill become law. The second objective of this proposal would establish a Missouri "deposit program" overseen by a board which would be created if the proposal is approved.

**ASSUMPTION** (continued)

The STO estimates significant tax losses to the state based on projected contributions to other states' tuition savings programs. These projected contributions were extrapolated from data showing the historical and projected growth of other states' IRC 529 savings programs. The STO has calculated a range of negative fiscal impact which begins with very conservative estimated contributions to other states' IRC 529 programs and continues to significantly larger estimated contributions.

Data for the IRC 529 programs is compiled based on tax years (calendar years) rather than fiscal years. As such, the STO estimates show calendar year figures.

#### 2005 Lower Range

\$434.66 Million in tax deductible contributions to all states' IRC 529 plans.  
\$26.08 Million gross revenue loss to Missouri.  
Less \$6.7 Million anticipated reduction in income tax losses from the MOST program  
\$19.38 Million net revenue loss to Missouri

#### 2005 Higher Range

\$719.66 Million in tax deductible contributions to all 529 plans.  
\$43.18 Million revenue loss to Missouri.  
Less \$6.7 Million anticipated reduction in income tax losses from the MOST program  
\$36.48 Million net revenue loss to Missouri

#### 2006 Lower Range

\$551.66 Million in tax deductible contributions to all 529 plans.  
\$33.10 Million revenue loss to Missouri.

#### 2006 Higher Range

\$885 Million in tax deductible contributions to all 529 plans.  
\$53.1 Million revenue loss to Missouri.

ASSUMPTION (continued)

2007 Lower Range

\$699.41 Million in tax deductible contributions to all 529 plans.  
\$41.96 Million revenue loss to Missouri.

2007 Higher Range

\$1,090 Million in tax deductible contributions to all 529 plans.  
\$65.3 Million revenue loss to Missouri.

Officials from the **Office of the Secretary of State** (SOS) assume this proposal would create the Missouri Higher Education Deposit Program and the Missouri Higher Education Deposit Program Board to administer a program for tax free education savings deposits. The board of the Missouri Higher Education Deposit Program Board, the Department of Higher Education, and the Department of Revenue may promulgate rules to enact this legislation. SOS estimates these rules could require as many as 16 pages in the Code of State Regulations. These rules would be published in both the Missouri Register and Code of State Regulations. For any given rule, roughly half again as many pages are published in the Missouri Register as in the Code because cost statements, fiscal notes and the like are not repeated in Code. SOS indicated that the cost of a page in the Missouri Register is \$23 and the cost of a page in the Code of State Regulations is \$27.  $((24 \times \$23) + (16 \times \$27) = \$984)$

**Oversight** assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process. Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

Officials from the **Office of Administration, Division of Budget and Planning**, assume this proposal would have no impact on their organization but that it would decrease total state revenue due to the expansion of allowable types of IRC 529 deposits.

Officials from the **Department of Higher Education** assume this proposal would have no direct impact on their organization.

ASSUMPTION (continued)

Officials from the **Department of Revenue** (DOR) assume Personal Tax would need to verify the documentation on each subtraction and handle additional correspondence. DOR estimates that Personal Tax will need one Tax Processing Tech for every 30,000 additional deductions claimed and one Tax Processing Tech for every 3,000 additional pieces of correspondence received on this legislation. DOR deferred to the estimated revenue impact prepared by the State Treasurers Office or the Office of Administration, Division of Budget and Planning. DOR estimated a total of two new FTE would be required, and provided an estimate of the total cost for their salaries, benefits, additional equipment and expense, and office space for the new staff.

**Oversight** has, for fiscal note purposes only, changed the starting salary for the two Tax Processing Technicians to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Oversight has also reduced the amounts for equipment and expenses in accordance with Office of Administration budget guidelines, and Oversight assumes that the limited number of new staff for this proposal could be accommodated in existing office space. If additional proposals requiring new staff are approved, the space needed for the new staff could be addressed under the normal state budget process.

**Oversight** assumes with the significant tax incentives offered by the federal and state government, this program has the potential to attract more investors. According to the website for the College Savings Plans Network, all fifty states now offer Section 529 state college savings plans. Last year, the programs received federal tax exemption as part of the Economic Growth and Tax Relief Reconciliation Act of 2001.

According to the website for the Federal Reserve Board the national savings rate for households in 2000 was 1.3 percent. Oversight assumes the estimate calculated by STO could be reduced to better reflect the actual savings rate of Missourians. However, Oversight has not been able to obtain information to better determine the percentage of growth for this program and will show the revenue impact of this proposal as a negative unknown, expected to exceed \$100,000 annually.

Officials from the **Department of Economic Development** and the **Office of Administration** did not respond to our request for information.

**This proposal will decrease Total State Revenue.**

| <u>FISCAL IMPACT - State Government</u>                            | FY 2005<br>(10 Mo.)                 | FY 2006                             | FY 2007                             |
|--|-------------------------------------|-------------------------------------|-------------------------------------|
| <b>GENERAL REVENUE FUND</b>  |                                     |                                     |                                     |
| <u>Loss - General Revenue</u>                                      |                                     |                                     |                                     |
| Reduced revenue due to higher contributions to IRC 529 programs. * | (Unknown)                           | (Unknown)                           | (Unknown)                           |
| Administrative cost of deposit program                             | <u>(Unknown)</u>                    | <u>(Unknown)</u>                    | <u>(Unknown)</u>                    |
| Total revenue reduction - GR *                                     | (Unknown)                           | (Unknown)                           | (Unknown)                           |
| <u>Cost - Department of Revenue</u>                                |                                     |                                     |                                     |
| Personal Service (2 FTE)   | (\$33,066)                          | (\$39,680)                          | (\$40,672)                          |
| Fringe Benefits  | (\$13,689)                          | (\$16,428)                          | (\$16,838)                          |
| Equipment and Expense  | <u>(\$10,870)</u>                   | <u>(\$1,063)</u>                    | <u>(\$1,095)</u>                    |
| Total Costs - DOR  | <u>(\$57,625)</u>                   | <u>(\$57,171)</u>                   | <u>(\$58,605)</u>                   |
| <b>TOTAL ESTIMATED NET EFFECT ON GENERAL REVENUE *</b>             | <b><u>(\$57,625 to Unknown)</u></b> | <b><u>(\$57,171 to Unknown)</u></b> | <b><u>(\$58,605 to Unknown)</u></b> |

\* unknown expected to exceed \$100,000.

| <u>FISCAL IMPACT - Local Government</u> | FY 2005<br>(10 Mo.) | FY 2006    | FY 2007    |
|---|---------------------|------------|------------|
|   | <u>\$0</u>          | <u>\$0</u> | <u>\$0</u> |

FISCAL IMPACT - Small Business

This proposal could have a fiscal impact to small businesses involved in investments or banking.

DESCRIPTION

SS:LR:OD (12/02)

This proposal would create the "Missouri Higher Education Deposit Program". This proposal would enable an annual income tax deduction of up to \$8,000 for an individual, and up to \$16,000 for a combined return, for contributions made to qualified savings programs and IRC 529 plans. Current law only allows such deduction in the amount of \$8,000, without specifying treatment of combined returns, and limits the deduction to only qualified savings program contributions.

The proposal would authorize a Missouri State income tax deduction for all states' IRC 529 programs. Current law restricts the deduction to contributions to Missouri's IRC 529 savings program (MOST). The proposal would also establish a Missouri Higher Education Deposit Program overseen by a seven-member Missouri Higher Education Deposit Program Board.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

#### SOURCES OF INFORMATION

Department of Revenue  
Office of Administration  
    Division of Budget and Planning  
Department of Higher Education  
Office of the State Auditor  
Office of the State Treasurer  
Office of the Secretary of State

L.R. No. 3261-02  
Bill No. SB 933  
Page 8 of 8  
January 23, 2004

NOT RESPONDING

Office of Administration  
Office of Director  
Department of Economic Development



Mickey Wilson, CPA  
Director  
January 23, 2004